



# PUBLIC NOTICE

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## **Third Quarter 1998 Universal Service Contribution Factors Revised and Approved CC Docket No. 96-45**

In this Public Notice, the Common Carrier Bureau (Bureau) revises and approves the final universal service contribution factors for the third quarter of 1998.<sup>1</sup>

On May 13, 1998, using information submitted on May 1, 1998 by the Universal Service Administrative Company (USAC), Schools and Libraries Corporation (SLC), and Rural Health Care Corporation (RHCC), the Accounting Policy Division (Division) of the Bureau announced the proposed universal service contribution factors for the third quarter of 1998.<sup>2</sup> The proposed factors were published in the Federal Register on May 26, 1998.<sup>3</sup> Pursuant to the Commission's rules, if the Commission had taken no action by June 9, 1998, the proposed third quarter contribution factors would have been deemed approved.<sup>4</sup> On June 8, 1998, the Division extended until 11:59 p.m. on June 12, 1998 the time period during which the Commission could modify the proposed third quarter 1998 universal service contribution factors.<sup>5</sup>

Also on May 13, 1998, the Bureau released a Public Notice seeking comment on whether to reduce the 1998 collection amounts for the schools and libraries and rural health care universal service support mechanisms.<sup>6</sup> In an Order adopted today, the Commission, among other things, adjusts the 1998 collection

<sup>1</sup> 47 C.F.R. § 54.709(a).

<sup>2</sup> Proposed Third Quarter Universal Service Contribution Factors Announced, *Public Notice*, DA 98-856 (rel. May 13, 1998) (May 13th Public Notice). On May 22, 1998, the Cellular Telecommunications Industry Association (CTIA) and Comcast filed comments on the May 13th Public Notice.

<sup>3</sup> Proposed Third Quarter 1998 Universal Service Contribution Factors Announced, CC Docket No. 96-45, 63 Fed. Reg. 28,510 (May 26, 1998).

<sup>4</sup> 47 C.F.R. § 54.709(a)(3).

<sup>5</sup> Extended Review Period for Third Quarter 1998 Universal Service Contribution Factors, *Public Notice*, DA 98-1094 (rel. June 8, 1998), *Erratum* (Comm. Carr. Bur., Acct. Policy Div., rel. June 9, 1998).

<sup>6</sup> Common Carrier Bureau Seeks Comment on Proposed Revision of 1998 Collection Amounts for Schools and Libraries and Rural Health Care Universal Service Support Mechanisms, CC Docket No. 96-45, DA 98-872, *Public Notice* (rel. May 13, 1998).

amounts for the schools and libraries and rural health care universal service support mechanisms.<sup>7</sup> Specifically, the Commission directs USAC to collect only as much as required by demand, but in no event more than \$325 million per quarter for the third and fourth quarters of 1998 and the first and second quarters of 1999 to support the schools and libraries universal service support mechanism.<sup>8</sup> With respect to the rural health care universal service support mechanism, the Commission directs USAC to collect only as much as required by demand, but in no event more than \$25 million per quarter for the third and fourth quarters of 1998.<sup>9</sup> The adjustments to the collection amounts for the third quarter of 1998 are reflected in the table below under the "total program costs" column. We note that, because the demand for funds exceeds the maximum amount that will be collected for the schools and libraries support mechanism in the third quarter of 1998, the "total program costs" for the third quarter (i.e., \$325 million) is less than the demand that SLC projected.

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<sup>7</sup> See FCC Reforms Universal Service Support Mechanism for Schools and Libraries, *News Release*, CC Docket No. 96-45, (rel. June 12, 1998).

<sup>8</sup> *Id.* The Commission further directs SLC to commit to applicants no more than \$1.925 billion for disbursement during 1998 and the first half of 1999. *Id.*

<sup>9</sup> *Id.*

Third Quarter 1998 -- (\$ millions)

Program	Program Demand	Administrative Expenses	Interest Income <sup>10</sup>	Total Program Costs
Schools and Libraries	690.0 <sup>11</sup>	4.4	(0.0) <sup>12</sup>	325.0
Rural Health Care	24.3	1.2	(0.5)	25.0
Subtotal	714.3	5.6	(0.5)	350.0
High Cost	414.1	0.8	(0.7)	414.2
Low Income	125.3	0.4	(1.0)	124.7
Subtotal	539.4	1.2	(1.7)	538.9
<b>TOTAL</b>	<b>1,253.7</b>	<b>6.8</b>	<b>(2.2)</b>	<b>888.9</b>

Based on information contained in the Universal Service Worksheets, FCC Form 457, USAC submitted on May 1, 1998, end-user telecommunications revenues for the 1997 calendar year. On May 14, 1998, USAC submitted revised end-user telecommunications revenues for the 1997 calendar year.<sup>13</sup> Funding bases for the third and fourth quarters are determined by subtracting the revenues reported for January through June 1997 (on the September Worksheet) from the 1997 calendar year revenues reported on the March Worksheet. The amounts are as follows:

Total Interstate, Intrastate, and International End-User Telecommunications Revenues from July 1, 1997 - December 31, 1997: \$94.066 billion

Total Interstate and International End-User Telecommunications Revenues from July 1, 1997 - December 31, 1997: \$34.719 billion.

<sup>10</sup> Because this table lists expenses, positive income flows are denoted with parentheses.

<sup>11</sup> In a letter dated May 11, 1998, SLC projected that the funding demand for the schools and libraries program for the third quarter of 1998 would be \$690 million. See Letter from Ira Fishman, SLC, to Magalie Roman Salas, FCC, dated May 11, 1998.

<sup>12</sup> SLC made the conservative assumption that interest income would be zero for the third quarter, to reflect the possibility that all funds would be disbursed during the third quarter. See Schools and Libraries Corporation Fund Size Requirements for Third Quarter 1998, CC Docket Nos. 96-45, 97-21, May 1, 1998, at 3, n.5.

<sup>13</sup> Letter from Ed English, USAC, to Magalie Roman Salas, FCC, dated May 14, 1998 (USAC May 14 letter). USAC revised the figures based on information contained in Universal Service Worksheets that were submitted after USAC submitted its May 1st filing. USAC reported in its May 1st filing that, because several carriers had not yet submitted their Universal Service Worksheet, approximately 18 percent of the end-user telecommunications revenues were based on estimates by USAC. According to USAC, the percent of industry revenues that continues to be based on estimates by USAC is 4.2 percent. *Id.*

To account for uncollectible contributions, we decrease by one percent the revenue estimates listed above. It has come to our attention that several carriers subject to the universal service contribution obligation have failed to meet this obligation.<sup>14</sup> To maintain the integrity of the universal service support mechanisms, pending enforcement of this obligation, we determine that we should account for uncollectible contributions at a rate of one percent. This is consistent with USAC's estimated rate of uncollectible contributions.<sup>15</sup> Additionally, because each quarter is three months long, we estimate quarterly revenues by dividing by two the six-month revenue estimates.

Based on the revised end-user telecommunications revenues submitted by USAC, SLC, and RHCC,<sup>16</sup> a one-percent reduction in the revenue estimates to account for uncollectible contributions, and consistent with the revised collection amounts for the schools and libraries and rural health care support mechanisms adopted today, the approved contribution factors for the third quarter of 1998 are as follows:

Contribution factor for the schools and libraries and rural health care support mechanisms:

Total Program Costs / Contribution Base (Interstate, International, and Intrastate) =  
\$0.350 billion / ( \$93.125 billion / 2) = **0.0075**

Contribution factor for the high cost and low income support mechanisms:

Total Program Costs / Contribution Base (Interstate and International) =  
\$0.539 billion / (\$34.372 billion / 2) = **0.0314**

These factors are the approved third quarter 1998 universal service contribution factors that USAC shall use to calculate third quarter universal service contributions. USAC will bill and collect these contributions on a monthly basis.<sup>17</sup>

For further information, contact Lori Wright, Accounting Policy Division, Common Carrier Bureau, at (202) 418-7400.

-- Action by the Acting Chief, Common Carrier Bureau --

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<sup>14</sup> Letter from Lisa Rosenblum, USAC, to Magalie Roman Salas, FCC, dated March 18, 1998 (USAC March 18 letter). *See also* Letter from Robert Haga, USAC, to Magalie Roman Salas, FCC, dated June 12, 1998 (USAC June 12 letter).

<sup>15</sup> *See* USAC June 12 letter.

<sup>16</sup> *See* USAC May 14 letter.

<sup>17</sup> 47 C.F.R. § 54.709(a)(4).

June 12, 1998

**STATEMENT OF  
COMMISSIONER HAROLD FURCHTGOTT-ROTH**

*Re: Third Quarter 1998 Universal Service Contribution Factors Revised and Approved;  
(CC Docket No 96-45) .*

**By Proceeding Today, The Commission Ignores The Express Will Of  
Congressional Leaders That It Reconsider the Universal Service Program  
In Its Entirety**

Today, in response to a Commission Order adopting the 1998-99 collection amounts, the Common Carrier Bureau releases a Public Notice announcing the universal service contribution factors for the third quarter of 1998. I dissent from that Order and object to this Notice.

Before stating some of my reasons for objecting, let me make clear that I support the implementation of Section 254 in its entirety, including the schools and library provisions, within the parameters of the law. I am also confident that all of my fellow Commissioners have labored earnestly in attempting to implement these provisions. But sound intentions are not always enough. I am fearful that, by today's actions, this Commission has jeopardized not only the schools and libraries program, but the entire universal service mandate, and perhaps more.

With these actions, the Commission defies the bi-partisan Congressional directive that this agency "suspend further collection of funding for its schools and libraries program, and proceed with a rulemaking that implements all universal service programs in a manner that reflects the priorities established by Congress in the telecommunications Act of 1996."<sup>1</sup> Most Senators at Wednesday's hearing encouraged the Commission at least to freeze temporarily this program while the Commission revisits both the substance and the ramp-up period of these new universal service programs. Indeed, in response to Sen. Wyden's (D-Ore.) suggestion that FCC take 6-8 weeks to fix the universal service program, I stated that I would welcome the opportunity. I had hoped that the Commission would follow Sen. Wyden's counsel to suspend the program and make a public commitment to address the entire universal service dilemma -- including the rural, high-cost issues -- in the next 6-8 weeks. I have been disappointed.

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<sup>1</sup> Letter from The Honorable John McCain, Chairman, Senate Committee on Commerce; The Honorable Ernest F. Hollings, Ranking Minority Member, Senate Committee on Commerce; The Honorable Tom Bliley, Chairman, House Committee on Commerce; The Honorable John D. Dingell, Ranking Minority Member, House Committee on Commerce; to The Honorable William Kennard, Chairman, Federal Communications Commission, June 4, 1998.

I recognize that some will argue that we must proceed now. But I am not convinced that a minor 6-8 week delay in a new program will cause great harm. Indeed, we have already collected enough money to fund almost all of the demand for telecommunications services for this entire year. As I have written in detail before, I believe there is no statutory basis in Section 254 for federal discounts for internal connections. And, as I have often stated, the primary purpose of Section 254 is to provide support for high-cost, rural areas of America, an issue that has yet to be fully addressed by the Commission.

Moreover, recent reports indicate that many schools will not even be able to spend the money allocated for inside wiring in 1998, even if the discounts were legal. Internal connections create substantial disruption to students, and schools typically have the work done during vacation periods. Because funding commitments cannot be made until sometime in June or July, many schools have realized that they cannot finish the installation of inside wiring before this summer ends. Thus, to minimize disruption, many schools would wait until the spring/summer of 1999 to provide internal connections in any event.

Congressional leaders have demanded that the Commission suspend the schools and libraries program until all aspects of universal service are resolved. It would be irresponsible to issue funding commitments, allow public money to be distributed, or to raise consumers rates -- which is undeniably necessary at least with respect to wireless rates if not overall -- to pay for these programs before Congressional concerns can be fully addressed. The American consumer will be left to pay the bill with rates that are not as low as possible.

June 12, 1998

**Separate Statement of Commissioner Gloria Tristani**

*Re: Federal-State Joint Board on Universal Service, CC Docket No. 96-45*

I strongly support the goals of the schools and libraries program. It is with reluctance that I support today's decision to scale back funding for the program. I do so because I believe it fairly reflect the competing concerns that face us at this point.

It has become all too common in Washington to substitute the word "investment" for "spending." With respect to some types of expenditures, the word "investment" is truly misplaced, but I believe "investment" elegantly captures the nature of the schools and libraries program. The nation's economy is increasingly dependent on the technological competence of its workforce. A fully functioning program is a golden opportunity to help prepare our children for the global, information technology economy. When we make a decision to slow funding for schools and libraries program, as we do today, we decide that fewer children will experience the world of the Internet for the first time. We also decide that, in the near future, fewer young adults entering the workforce will be capable of performing jobs that American companies are desperate to fill. The schools and libraries program is competition policy, and while it will not singlehandedly create a workforce capable of growing our economy in the face of foreign competitors, it is an important step in that direction.

I recognize and respect Congress's wishes with regard to the universal service provisions. Congress speaks for the American people, who are the ultimate source of the FCC's authority. Many members of Congress have told the Commission that they intended high cost support to be the centerpiece of the universal service provisions of the Telecommunications Act of 1996. I do not disagree with that point. I take this opportunity to personally reaffirm my commitment to a high cost mechanism that complies with the letter and spirit of the universal service provisions of the 1996 Act. Coming from New Mexico, I have seen first hand the need for high cost support for rural areas. A new high cost mechanism that failed to "preserve and advance universal service" would be flatly at odds with both the Act and the unambiguous will of Congress. Thus, as a matter of both personal belief, as well as professional duty, I am firmly committed to creating a new system of high cost support that keeps local telephone service affordable in rural areas.

Some have argued that the FCC should freeze the schools and libraries program until we complete our work on a new mechanism for supporting local telephone rates in high cost areas. The argument is that the FCC has simply misunderstood Congress's relative priorities as between schools and libraries support and high cost support. I understand why some would feel that way. However, I do not believe we should postpone resolution of the schools and libraries program simply because we have not completed our work on the far more complex high cost plan. Thus, I would reiterate that my support for implementing the schools and

libraries program does not in any way affect my commitment to creating a high cost support system that fully complies with section 254 of the Act.

Implementing the schools and libraries portion of the 1996 Act was a very challenging task for the previous Commission, and it continues to present this Commission with difficult choices. But replacing the old system of high cost subsidies with explicit support flows is proving to be a far more difficult task. For one thing, any new mechanism is bound to affect the amounts currently paid and received by individual carriers and individual states. Many carriers and state commissions have devoted enormous resources to devising proposals that seek to accommodate the competing concerns. While some of these proposals are quite different, each has components that satisfy important objectives.

In addition, the new high cost mechanism is particularly important because it will directly affect Congress's goal of bringing consumers competitive choices in telecommunications markets. A system of explicit support that results in underfunding of high cost areas would, as a practical matter, restrict consumers in those areas to a single choice of provider -- the incumbent. Preserving universal service and promoting competition are the hallmarks of the 1996 Act. They are also two sides of the same coin. Thus, in addition to achieving the critical objective of preserving affordable telephone service, the new system of high cost support adopted by this Commission will go far in determining whether Congress's goal of competition is ever realized for millions of Americans. I view the ongoing struggle to implement the new high cost mechanism not as a lack of commitment on our part but as a sign of our commitment to getting it right with respect to high cost funding for rural areas.

I am also concerned that today's action will cause disruption to the education community. The public is not entitled to assume government policies will never change. The government is constantly adding to, modifying, or eliminating rules and regulations. It does so either because the conditions have changed, or because attitudes have changed even as the underlying conditions remain the same. I see no evidence that the conditions justifying the creation of the schools and libraries program have changed. Today, just as on May 8, 1997, there is no question that children will receive better educations if the immense resources of the Internet are made available to them and their teachers. What has changed is the attitude toward the program because of the realization that achieving this worthy goal will cost money. I welcome a thorough discussion of the extent to which consumers are willing to sacrifice to achieve this goal. I have little doubt that consumers are willing to pay for the schools and libraries program. I only regret that it has taken so long for this fundamental dialogue to occur.

Funding of internal connections has become a key focus of the program because it represents approximately 65 percent of the support requested for 1998. I believe the benefits of the schools and libraries program are critically dependent on funding internal connections. Section 254(h)(1)(B) is about bringing the Internet to students. Students are located in classrooms. Therefore, the Internet connection must be brought to the classrooms. Funding basic telephone service and Internet access service for phone lines in principals' offices will not improve education for students. In the past few months, this point was made clear to me



when I visited schools in New Mexico and Puerto Rico. Although a few of the classrooms had computers, none had Internet access. Those visits crystallized for me the importance of inside wiring to the success of the schools and libraries program.

It is regrettable that we are funding internal connections for only the schools eligible for 80 and 90 percent discounts. This means the majority of schools that were eligible for discounts on inside wiring will get nothing. Many of the schools I visited did not fall into the 80 or 90 percent discount range, yet their facilities were quite modest and would not be considered wealthy by any measure. Under our decision today, they will receive no funding to connect their classrooms to the Internet. This is a true loss for those students and teachers.

In the end, I hope today's slowdown of the Schools and Libraries Program will prove to be only a detour for this vital program. I note with optimism that some in Congress are exploring the idea of using money collected through the current excise tax on phone bills to fund the Schools and Libraries Program. I hope this idea receives serious consideration.

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